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SUBJECT: COSTELLO DECLARES NO INTEREST IN LIBERAL LEADERSHIP

REF: A) CANBERRA 867

¶1. (SBU) SUMMARY: In an interview published September 11, former Howard Government Treasurer Peter Costello ended months of speculation by declaring that he would not seek the leadership of the Liberal Party. Recent media commentary that Costello would contest the leadership of his party has been fueled by the dismal polling performance of current Liberal Party leader Brendan Nelson and public opinion surveys that indicate the former Treasurer is the most popular choice for Liberal Party leader. Costello had stated previously that he was not interested in the leadership but he has remained silent in the face of recent speculation. With current Liberal leader Nelson failing to gain traction in the polls over the past several months, the path will now be clear for Shadow Treasurer Malcolm Turnbull to challenge Nelson for the leadership, probably before the end of the year. END SUMMARY

¶2. (U) The Sydney Morning Herald published an interview with Costello in its September 11 edition. Costello declared that "I think I've made it clear. I'm not seeking the Liberal Party leadership...I don't want the leadership." Costello told the Herald he supported Brendan Nelson and had told him so. As to his future in politics Costello said: "I've got a few things that I'm working on but my position as a backbencher is quite separate from any return to the leadership. I'll continue to serve my constituents and if I feel I'm no longer able to do that as well as I want, I'll make an announcement then." The former Treasurer maintained that he was happy just to serve his constituents as a backbencher.

¶3. (SBU) COMMENT: Costello's memoirs will be published in a few days and it had generally been assumed he would make his position on the leadership clear during the pre-publication media build-up. With Nelson's consistently poor performance in the polls, most commentators and Liberal Party politicians believe Turnbull will challenge for the leadership before the end of the year (reftel). If Costello had wanted the leadership, it would have been his, so Turnbull has needed to wait for Costello to declare himself. Parliament next sits from September 15-26.

¶4. (SBU) COMMENT CONTINUED: This week, Nelson has seized on the financial plight of old-age pensioners and the need to give them supplemental payments from the budget surplus (something the Howard Government did). Prime Minister Rudd and Treasurer Wayne Swan have resisted these payments as nothing more than political opportunism but Nelson seems to have found an issue that could resonate with voters. If this issue gains traction, Nelson might be able to hold off Turnbull temporarily but, barring an unexpected turnaround in the poll numbers, a leadership challenge by Malcolm Turnbull is likely before the end of the year.

MCCALLUM